

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**August 22, 2006**

The Capital Projects and Bond Oversight Committee met on Tuesday, August 22, 2006, at 1:00 PM, at the Centralized Laboratory Facility in Frankfort, Kentucky. Senator Elizabeth Tori, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Elizabeth Tori, Co-Chair; Representative Mike Denham, Co-Chair; Senator Tom Buford; and Representatives Robert Damron and Paul Marcotte.

Guests testifying before the Committee: Major Wayne Mayfield and Laura Sudcamp, Kentucky State Police; Sandy Williams, Kentucky Infrastructure Authority; Terri Fugate, Office of Financial Management; John Hicks, Governor's Office for Policy and Management; Jim Abbott and Nancy Brownlee, Finance and Administration Cabinet; Tony Wheatley, Department of Fish and Wildlife Resources; John Covington, Kentucky Infrastructure Authority; and John Egan, Frost, Brown, and Todd.

LRC Staff: Mary Lynn Collins, Nancy Osborne, Pat Ingram, Bart Hardin, Kristi Culpepper, and Debbie Rodgers.

Senator Tori called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. Ms. Collins said the folders included correspondence submitted by the University of Louisville regarding the purchase of unbudgeted scientific research equipment; correspondence from Deborah Clayton, Commissioner, Department of Commercialization and Innovation, reporting two grants exceeding \$400,000 from the High Tech Investment Pool for the Center for Technology Enterprise, Inc., DBA ConnectKentucky and MetaCyte Business Lab LLC; and the Kentucky Lottery Corporation's monthly financial report for June 2006.

Ms. Collins said two information items were also included in members' folders: a staff update on various capital projects and the updated monthly and weekly debt issuance calendar.

Ms. Collins briefly discussed one additional item of correspondence, an article from the Bond Buyer discussing a recent decision by the Kentucky Supreme Court. The Court has decided not to consider a case in which a lower court found that the state's

method of taxing out of state bonds was unconstitutional. She said this case could have implications on the state's borrowing costs.

Senator Buford made a motion to approve the minutes of the July 18, 2006 meeting. The motion was seconded by Representative Damron and approved by voice vote.

Senator Tori introduced Major Wayne Mayfield, Commander, Kentucky State Police (KSP) Forensic Laboratory.

Major Mayfield welcomed the Committee members and staff to the Central Lab. He said KSP occupies a small portion of the laboratory facility, and at the conclusion of the regular business meeting, he would conduct a tour of the KSP forensic laboratory. He then introduced various other KSP Central Laboratory staff in attendance at the meeting today.

Senator Tori introduced Gary Cloyd, Assistant Director of Facilities Management, Kentucky Community and Technical College System (KCTCS), to discuss a project report from KCTCS for the Gateway Community and Technical College. Joining Mr. Cloyd at the table was Rebecca Weatherford, Director of Property Management, KCTCS.

Mr. Cloyd reported the development of a land lease relating to property located on the Boone County campus (Mt. Zion Road) at the Gateway Community and Technical College with the Brighton Recovery Center. He said the Brighton Recovery Center is a subsidiary of Brighton Center Inc. in Newport, a non-profit charitable organization whose mission is to create opportunities for individuals and families to reach self-sufficiency throughout the communities of Northern Kentucky. Brighton Recovery Center plans to construct a women's recovery center, which is part of Governor Fletcher's Recovery Kentucky initiative to build housing recovery centers across the state. The structure will consist of a two-story, 40-unit transitional supportive housing development for homeless women or those at risk of becoming homeless.

Mr. Cloyd said the lease term will be for 99 years with the base rent of \$1 per year, and the Brighton Recovery Center will be responsible for the payment of any expenses related to the lease and all construction related costs. He said the property being leased is separated from the remainder of the campus by a small strip of privately-owned property, and would not have supported any construction of a large campus or college facility.

Representative Denham asked about the progress of the construction of other recovery centers throughout the state. Mr. Cloyd said that although the Recovery Center program is not a KCTCS program, it was his understanding that there is one recovery center in Christian County and they have announced a groundbreaking for that center.

Representative Marcotte noted that construction of a recovery center was planned for Kenton County, but they have not been able to get approval. He asked if the Boone County recovery center was originally intended for construction in Kenton County. Mr. Cloyd responded that this recovery center was not intended for construction in Kenton County. The recovery center for men was to be located in Covington, but they have not been able to get approval. He explained that the Governor's plan is to construct two recovery centers in each congressional district, one for men and one for women.

Representative Marcotte asked if objections had been raised to the Gateway site. Mr. Cloyd said to his knowledge, there was no controversy associated with this project.

In response to a question from Senator Tori, Mr. Cloyd said this project will have no impact on the implementation of the master plan for the development of the Mt. Zion campus. He said the parcel being used was donated to KCTCS by a corporation. The property is heavily wooded rough terrain with a few small areas suitable for construction, but nothing that could sustain a large college facility. He said this property was not included in KCTCS's master plan, except as green space or a wooded area. This item required no further Committee action.

Senator Tori asked Mr. John Hicks, Deputy State Budget Director, Governor's Office for Policy and Management, and Mr. Jim Abbott, Commissioner, Department for Facilities and Support Services, to present the Finance Cabinet's monthly report to the Committee. Mr. Hicks reported a \$5,427,760 federally funded scope increase for the Paducah Joint Use Readiness Center project. This project was approved in the 2006-08 budget for \$11,400,000 (federal funds).

Mr. Hicks said this center will replace the existing armory and accommodate the combination of two reserve centers. The scope increase is needed due to higher cost estimates provided by the Department of Defense and the Base Realignment and Closure Commission.

Senator Buford made a motion to approve the scope increase. The motion was seconded by Representative Damron and passed by unanimous roll call vote.

Mr. Hicks next reported a \$172,500 restricted fund scope increase for the Kentucky Electronic Workplace for Employment Services (KEWES) Siebel Upgrade. The restricted funds are a combination of Unemployment Insurance Penalty and Interest funds (\$22,500) and unbudgeted Service Capacity Upgrade funds (\$150,000). The scope increase is needed due to updated estimates.

Representative Denham made a motion to approve the scope increase. The motion was seconded by Representative Marcotte and approved by unanimous roll call vote.

Mr. Hicks next reported a Deferred Maintenance Pool project for the Department of Military Affairs titled Emergency Operations Center HVAC Upgrade project. The scope of the project is \$657,000, which exceeds the \$600,000 threshold for reporting capital projects to the Committee. Mr. Hicks said a combination of funds is being used to finance this project: Department of Military Affairs Deferred Maintenance Pool funds (\$351,000) and federal funds (\$306,000). The scope increase is needed to meet the low bid.

Senator Tori asked what is the expected useful life of this upgrade. Mr. Abbott said the useful life is approximately 25 years for the pumps, compressors, and new boilers being installed.

The last item Mr. Hicks reported was an allocation of \$4,685,000 from the Department of Fish and Wildlife Resources' Land Acquisition Pool for the acquisition of approximately 4,200 acres in Carlisle and Hickman counties. The land is known as the Westvaco Wildlife Management Area.

Representative Denham asked what the Department plans to utilize this land for. Mr. Tony Wheatley, Department of Fish and Wildlife Resources, said the property will be retained as a wildlife management area.

In response to questions from Representative Denham, Mr. Wheatley said the property will be open all applicable seasons for hunting, and the Department plans to increase the water fowl habitat on the property.

In response to a question from Representative Damron, Mr. Hicks said they did not study the fiscal impact to school districts from the loss of tax revenue for this tract being removed from the tax base. Representative Damron said this is always a concern of his when the state buys such a huge piece of property and removes it from the tax base.

Senator Tori said no action was required for these two projects.

In response to an earlier question about construction of facilities under the Governor's Recovery Kentucky initiative, Mr. Abbott said there are actually three projects moving forward. He explained that the Justice Cabinet has conveyed a portion of its juvenile detention center property back to the original donor, the McCracken County Fiscal Court, for the county to proceed with a project similar to what KCTCS reported today at the Gateway Community and Technical College. The third project is the one in Christian County.

Senator Tori then introduced Ms. Nancy Brownlee, the Director for the Division of Real Properties. Ms. Brownlee first presented a lease renewal report for the

Department for Public Advocacy in Franklin County (PR-3764). She said there were two best and final proposals, and the existing lessor's proposal offered the most economical offer at an annual cost of \$277,767 (19% increase) for a term of five years.

The next lease renewal report Ms. Brownlee presented was a lease renewal for the Department of Agriculture in Franklin County. At the end of the lease expiration, the lessor asked for a rate increase. The project was advertised and the existing lessor submitted the only best and final proposal. The lease is being renewed at an annual cost of \$248,156 (21%) for a term of five years. She said Real Properties staff were unsuccessful in its attempts to negotiate a lower rate with the lessor.

Ms. Brownlee noted that these two leases have been flagged for advertisement when they come up for renewal next year. It is anticipated that the rental market will change when the renovated State Office Building comes on-line.

In response to questions from Representative Denham, Ms. Brownlee said the market for office space in Franklin County is tight right now. However, the State Office Building reopens in Fall 2007, and agencies will be relocated from leased space into state-owned space. Improvements to the state-owned Jones Building will also be complete in Fall 2007. Therefore, more competitive prices for leased office space should occur. She said in the meantime, they are seeing increased costs for leased office space.

Representative Damron noted these two leases do not expire until 2011. He asked if the leases have a cancellation clause. Ms. Brownlee explained that the lessor offered a term of five years, but the lease is renewed on an annual basis. She said also included in the lease is a provision for a 30-day cancellation clause.

Representative Denham made a motion to approve the two lease renewal reports. The motion was seconded by Representative Damron and passed by unanimous roll call vote.

The last item Ms. Brownlee reported were six lease modifications of less than \$50,000 each for the period of April through June 2006. As a result of these modifications, there was a net savings to the state of \$146,508. No action was required for this report.

Next, Mr. John Covington, Treasurer, Kentucky Infrastructure Authority (KIA), reported three new KIA loan requests. The first loan Mr. Covington reported was a Fund A loan request for the Regional Water Resource Agency in Daviess County. The Water Authority is requesting a \$7,624,500 Fund A loan to fund improvements to the wastewater collection system.

Senator Buford made a motion to approve the Fund A loan. The motion was seconded by Representative Marcotte and approved by unanimous roll call vote.

Mr. Covington next reported a \$400,000 Fund A loan for the Northern Madison County Sanitation District. The proceeds will be used to fund the construction of a gravity sewer collection system.

Senator Buford asked who the engineer is for this project. Mr. Covington said Nesbitt Engineering is the engineer.

Representative Marcotte made a motion to approve the Fund A loan. The motion was seconded by Representative Denham and passed by unanimous roll call vote.

The last KIA loan request reported was a \$640,000 Fund B loan to the City of Guthrie in Todd County. The proceeds will be used to refinance a Kentucky Area Development District loan.

Representative Marcotte made a motion to approve the Fund B loan. The motion was seconded by Senator Buford and passed by unanimous roll call vote.

Mr. Covington said members' folders included a report from KIA reporting line-item Coal/Tobacco Development Grants approved in previous sessions of the General Assembly. Senator Tori said no further action was required on these projects.

The next report was provided by Ms. Terri Fugate, Deputy Executive Director, Office of Financial Management (OFM). She said OFM submitted one new bond issue report to the Committee this month: Kentucky Economic Development Finance Authority (KEDFA) Medical Center Revenue Improvement Bonds, Series 2006 (Ashland Hospital Corporation, d/b/a King's Daughters Medical Center project). The proceeds from this bond issue are anticipated to be \$40,000,000, and will be used to finance the expansion, renovation, and equipping of the Ashland, Kentucky hospital facility, including the addition of two floors to the Heart and Vascular Center, construction of an Outpatient Imaging Center, expansion of critical care facilities, and extension of outpatient services. She introduced John Egan, Bond Counsel from Frost, Brown, and Todd.

Representative Denham asked if King's Daughters Medical Center (KDMC) is privately owned. Mr. Egan said KDMC is a 501 (c) (3), non-profit corporation that was created years ago and is based in Ashland. He noted that KDMC is subject to all state statutes governing local hospitals.

Representative Damron asked if KDMC needed a Certificate of Need (CON) for this project. Mr. Egan said as he understood it, they are not adding any beds to the project. The Cardiac and Vascular Center is already under construction and they are

adding two floors to the project. They are also expanding their outpatient imaging center. He said because they are not increasing their number of beds, he was not sure they needed to go through the CON process for this project.

In response to a question by Senator Tori, Mr. Egan said the hospital has approximately 400 beds now. It serves both the Kentucky and West Virginia markets.

Representative Denham made a motion to approve the new bond issue. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Fugate then presented one follow-up report (approval letter) for a previously approved bond issue: University of Kentucky General Receipts Bonds, 2006 Series A, \$24,325,000. Senator Tori said the Committee approved this bond issue at a previous meeting, and no further action was required.

Ms. Fugate presented three new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Anderson County, Kenton County, and Leslie County.

Senator Buford made a motion to approve the school bond issues. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Collins said there were three locally-funded school bond issues submitted to the Committee for review this month: Adair County, Green County, and the Kentucky Interlocal School Transportation Association. She said all disclosure information has been filed, and no further action on the bond issue is required.

Senator Buford asked if he could make a few observations about the previously discussed KEDFA bond issue for the Ashland Hospital. He noted KDMC is the only hospital in Ashland, and because of this lack of competition, the state cannot negotiate better pricing for its health insurance plans. He said as the size of the hospital increases, we lessen the ability to create some competition to save the state budget a lot of money. He said the premiums may be considerably higher as a result, and this is something the Committee should keep in mind when approving these projects. He said as KDMC makes larger investments there, it certainly weighs against a CON being issued for another hospital in order to create more competitive pricing for insurance premiums. Senator Buford noted that the Ashland hospital has some of the highest rates in the state.

Representative Damron added that as KDMC continues to expend additional resources in that facility, that gives them even more reason to raise the rates. He said this is a substantial expansion of KDMC's debt structure, and the reason they would have to charge more. He said he hoped these types of activities do require a CON, because small

communities are required to obtain a CON to get a hospital where they may need one, and it seems to be somewhat unfair.

Senator Tori said this is something the Committee should be mindful of as it reviews these projects that are going to be forthcoming across the state.

Senator Tori then turned the meeting over to Representative Denham to make a special presentation. Representative Denham said Mary Lynn Collins, the Staff Administrator for the Capital Projects and Bond Oversight Committee, will be retiring from the Legislative Research Commission effective August 31, and today would be her last meeting. He then read a resolution in honor of her long service to the General Assembly.

Senator Tori congratulated Ms. Collins on her retirement, and also recognized Nancy Osborne, who will be the new Committee Staff Administrator.

Ms. Collins said she has been with the Legislative Research Commission since 1979, and has enjoyed working with the Committee. She says she has been proud to be part of the oversight process for authorized capital projects.

With there being no further business, Representative Damron made a motion to adjourn the business portion of the meeting. The motion was seconded by Senator Buford, and the meeting adjourned at 2:00 p.m. A tour of the KSP Forensic Laboratory followed.